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TAGS: [ECIN](#) [ECON](#) [ETRD](#) [PREL](#) [EU](#) [CO](#)
SUBJECT: EU TO INITIATE TRADE TALKS WITH COLOMBIA AND PERU:
WILL THE CAN GET CANNED?

REF: QUITO 956

Classified By: Economic Counselor Lawrence J. Gumbiner for Reasons 1.4
(b & d)

11. (SBU) SUMMARY. The EU has responded favorably to Colombia's and Peru's requests to move forward with trade negotiations outside of the framework of the Andean Community of Nations (CAN), with the goal of sealing a deal by the first semester of 2009. While the CAN provides a basis for greater regional economic integration, and for the benefits associated with a market of 100 million people, the stalled Association Agreement negotiations between the CAN and the EU highlight the increasingly dysfunctional integration arrangement. Colombia had made no secret of its desire to push ahead with EU negotiations with or without its CAN partners, and the EU move represents a victory for President Uribe. With the EU's modified approach to negotiations, CAN member-states are taking a step back from economic integration, while still maintaining the free trade area which underpins the CAN. END SUMMARY.

WHAT IS THE CAN?

12. (U) The CAN has its origins in the broad (and vague) Cartagena Agreement of 1969. Chile, an original member, pulled out in 1976, and Venezuela's 2006 withdrawal left the CAN with its four current members (Bolivia, Colombia, Ecuador and Peru). The economic integration portion of the accord started as a free trade zone and, with several members adopting a common external tariff in 1994, became an imperfect customs union. In August 2007, the CAN formally abandoned the common external tariff, and as a result, any semblance of a customs union.

13. (U) In September 2007, the European Union and the CAN launched the first round of negotiations of an Association Agreement, which includes the following three pillars: 1) political dialogue; 2) cooperation; and 3) trade. While the EC instructions to its negotiators were to maintain negotiations should be bloc-to-bloc, immediately difficulties arose due to the polarization among CAN members, specifically the differing visions and state of readiness of Bolivia and Ecuador compared with Peru and Colombia. The fourth round of

negotiations, scheduled for July 2008 in Brussels, was suspended because of the failure of the CAN member-states to reach a common position on intellectual property rights and sustainable development.

HOW TO MOVE EU NEGOTIATIONS FORWARD

¶4. (SBU) While negotiations had been formally considered "postponed", Brussels realized negotiations could not go forward in their current bloc-to-bloc form due to the deep divisions among CAN member-states, according to EU Mission officials in Bogota. Nonetheless, the Europeans worried they would be blamed for exacerbating fissures within the CAN if they went forward with individual member-states. In September, Presidents Uribe of Colombia and Garcia of Peru sent separate, but identical, letters to the European Commission requesting bilateral negotiations as quickly as possible, as allowed for under Decision 598 of the CAN.

¶5. (C) According to EU Mission Bogota Economic Section Chief Gonzalo Fournier, EC President Jose Manuel Barroso sent letters to Presidents Uribe and Garcia on October 6, accepting the proposal to negotiate a "commercial agreement" (which would have the force of a treaty, but would not be called a "free trade agreement") with Colombia and Peru, and possibly Ecuador. According to Fournier, the letter sets a goal of the first half of 2009 to reach an agreement and calls for "immediate, urgent meetings" of each side's trade officials. The negotiations, as envisioned, would include Colombia, Peru, and possibly Ecuador across a single table from the EU, but would result in separate agreements between

the EU and each country. Negotiations will not continue on the political dialogue and cooperation pillars. Instead, the future negotiations will "based on" the 2003 EU-CAN "Agreement on Political Dialogue and Cooperation" signed in Rome. This linkage allows the EC to avoid the time-consuming process of having EU member-states change the negotiating instructions and gives the Commission the political cover it believes it needs against accusations of fracturing the CAN.

STATE OF EU NEGOTIATIONS REFLECTS DEEP CAN DIVISIONS

¶6. (SBU) According to GOC economic analyst Andres Espinosa, the impasse within CAN member-states regarding EU negotiations is a direct result of their starkly different political and economic models. Espinosa described three distinct models present in the CAN: 1) a robust role for the private sector, based on secure property rights and clear economic rules in Colombia and Peru; 2) a more traditional leftist model with a large role for the state in the economy in Ecuador; and 3) a specific form of populism aimed at the indigenous population in Bolivia. These three radically different approaches to governing and organizing an economy make any further economic integration unlikely, according to Espinosa. If anything, last year's abrogation from the common external tariff one month before the start of negotiations with the EU previewed the impossibility of bloc-to-bloc negotiations of the trade pillar.

URIBE PASSES ON CAN SUMMIT DUE TO CORREA'S REMARKS

¶7. (SBU) The next CAN Summit is scheduled for Tuesday, October 14 in Guayaquil, Ecuador (Reftel). The two major themes put forth for the meeting are the future of the CAN and negotiations with the EU. According to Alfredo Ramos, Director of Economic Integration in the Ministry of Trade, GOC objectives are simple. Regarding the CAN, Colombia wants to maintain the status quo. Regarding negotiations with the EU, Colombia wants to reach a bilateral deal as soon as possible. Ramos did not believe that pursuing separate tracks on the trade pillar would, in and of itself, worsen relations between CAN member-states, citing precedents with the U.S. and with Canada when negotiations began with the entire bloc and ended in bilateral frameworks.

18. (SBU) On Friday, October 3, the Presidency announced that Uribe had reversed his decision to attend the CAN summit, following Correa's reported remarks that he did not consider the GOC a friend. According to Ramos, Vice Ministers of Foreign Relations (Maria Clara Isaza) and Trade (Eduardo Munoz) will represent Colombia at the meeting. With Uribe's decision not to attend -- his first planned trip to Ecuador in 2008 -- the bilateral thaw that many expected will clearly not take place.

COMMENT: CAN WILL STAY, BUT FURTHER INTEGRATION UNLIKELY

19. (SBU) None of our interlocutors expects any of the four current members of the CAN to withdraw from the agreement. The trade relationships among them are too critical for any one to abandon the free trade area. Nonetheless, further economic integration of the four-member group appears unlikely, given their vastly differing visions of economic development. The fact that negotiations between the EU and only some CAN member-states will move forward, while beneficial for Colombia, represents a step backward for Andean economic integration.
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